August 28, 2009 – Miscellaneous Notes

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There have been a few recent developments I'd like to briefly comment on. There have been some recent declines in published inventory statistics that caught my eye. The first involves the recent 1.3 million oz decline in COMEX-approved inventories, to just around 116.4 million total ounces. . I have closely observed the daily changes in COMEX inventories for more than 25 years, from every possible angle; registered versus eligible, changes between different warehouses, warehouses that have come and gone (mostly gone).

As far as this observation being a worthwhile exercise, in terms of warehouse movements correlating with silver price movements, I'd have to say it has largely been a waste of time. That's because there are always too many variables. The most obvious missing ingredient is that all the data available from the daily reporting of the COMEX silver inventories doesn't tell us the real answer to the only question that matters. That question, of course, is how much of the silver we see reported is actually available to the market, at or near current prices. After all, every ounce of the silver reported in COMEX inventories, no matter what category or in which warehouse is owned by someone. And only those owners will determine if they will sell at current prices. Because no one can answer that question, other than the owners themselves, the real question of true availability always remains unanswered.

Still, that does not deter us from analyzing all daily published silver inventory statistics. That's because if we start to deplete COMEX and other publicly reported silver inventories because there is not enough non-reported silver to supply the market, then Katie, bar the door, because we have hit the bottom of the barrel of freely-available silver inventories. At that point, true price rationing will be the order of the day.

I found it interesting that one million ounces of the recent decline came from HSBC and that silver didn't show up in other COMEX-approved warehouses. Soon, we should witness transfers from HSBC to other warehouses as a result of HSBC's decision to get out of the retail metal storage business. But, there I go again; micro-analyzing the daily changes in COMEX inventories, after I just told you such close looks rarely reveal anything of importance.

So let me step back and view the COMEX silver inventories over a much longer time frame to see if there is any relevance in that perspective. From the highest levels of inventories, at around 280 million ounces back in the early to mid-1990's, COMEX warehouse silver holdings are down near 60%. For this decade, the levels of COMEX silver inventories have fluctuated in a fairly narrow range, from around 100 million oz on the low end to 140 million on the upper end. Currently, the 116.4 million oz mark is near a two year low point. My sense is that this reflects the silver is held in increasing stronger hands and is less available, although I can't prove that.

I do find it interesting, however, that when the COMEX silver inventory statistics are compared to COMEX gold inventories, a starkly different picture emerges. Whereas silver stocks are down sharply from high-water marks and are much closer to historical low levels, COMEX gold inventories are at all-time highs. At more than 9 million ounces, COMEX gold stocks are nine-fold higher than the 1 million oz low-water mark back in 2001. The dollar value of the COMEX gold inventories is 5 times greater than the dollar value of the silver inventories ($8.6 billion vs. $1.7 billion), even though there are more than 12 times more silver ounces on deposit. That's due to the extreme price aberration between gold and silver.

I also sense the stark disparity between the stunning historical growth in COMEX gold inventories compared to the sharp historical decline in COMEX silver stocks means something. I bounced this data off my friend and mentor, Izzy Friedman (yes, he will be contributing here from time to time), to get his take. He didn't hesitate. He said it means there is plenty of gold and not plenty of silver. He went on to explain that since the COMEX warehouse structure is mainly as a storage and depository institution, it reflects abundance and tightness. When metal holders have extra metal that they want to monetize (convert to cash) they'll deposit the metal in such a facility as the COMEX. When there is no extra metal available to monetize, there will be no growth in metal deposits in such facilities. According to Izzy, this means there is plenty of gold and tightness in silver.

I agree with Izzy's take, especially when you consider the bulk of each metal, where it makes more sense to store silver, instead of gold. After all, one contract of gold is 100 ounces or around 7 lbs, easily held in the smallest of safety deposit boxes. This makes gold professional storage less attractive. One contract of COMEX silver is 5000 oz, or 350 lbs. Good luck finding a safe deposit box to hold five 70 lbs silver bars. This makes silver a more logical candidate for professional warehouse storage. The fact that the historical data shows a dramatic increase in gold inventories versus a decline in COMEX silver inventories seems to confirm that gold is plentiful while silver is not.

Yesterday, there was a decline of almost 2.7 million ounces in the holdings of the big silver ETF, SLV. This nudged total SLV holdings down to 281 million ounces, less than one percent off the record high holdings. As has been the case in several past declines in silver holdings in SLV, this decline looked Â?strangeÂ? to me. No, I'm not implying strange in the sense that anything wrong or underhanded took place; I'm thinking something else completely. I know many don't agree, but I think l that the SLV is legitimate. (I promise I'll write on that in more detail soon, as I get many questions and comments on the issue of SLV's legitimacy).

What I think was strange about yesterday's decline in SLV holdings was I don't think the decline was due to the most obvious explanation, namely, there was liquidation due to investor selling of owned shares. The volume and price action of the past week don't suggest that. Volume for the past week was low and price action was steady to higher. Those are not the ingredients for a plain vanilla investor liquidation, like we've seen in the big gold ETF, GLD, over the past couple of months. No, I think the decline in SLV silver holdings was due to something else, namely a straight withdrawal of metal because it was needed to be shipped someplace else. Like to another ETF-type vehicle. The Central Fund of Canada is one likely candidate. If I am correct about the reason for the decline in SLV holdings that is very bullish, not bearish at all. Strange, indeed.

Finally, I got an unexpected phone call from the CEO of a major silver mining company. I hadn't talked with him in years. He was to the point Â? he read my recent comments and what did I think about the new chairman of the CFTC and what were the chances for change in position limits in silver? Of course, I told him exactly the same as what I have been writing (that way I don't have to try hard to keep my stories straight). He laughed knowingly when I told him it was weird that I was praising Gary Gensler so much, considering my past criticism of the agency over the past 20 years. I told him I couldn't know the final outcome but I felt it would be hard for silver not to be included in any legitimate position limit reform.

My point in relaying this incident is to pass along my sense that this position limit issue is emerging as the most important issue in silver. And well it should. There have been many recent articles on this, in major business publications, like the Wall Street Journal and the Financial Times. There will be many more. I know I have been ahead of the curve on this issue (some would say too far ahead), due to my 20+ year personal involvement in trying to get legitimate position limits enacted in COMEX silver. But as I pointed out to the CEO and have pointed out to you, this time it's not me leading the charge, it's the regulators. I assure you that makes all the difference in the world.

On a housekeeping note, I should have installed soon the email notification system to alert subscribers to when a new article is posted. Thanks for your patience. It is my intent to provide the best market intelligence and most value possible. Thanks for your support.

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